BDC
Entrepreneurs first

2012

SECOND QUARTER

FINANCIAL REPORT

September 30, 2011

Canada

EXECUTIVE SUMMARY

In recent months, the outlook for global economic growth has weakened, mainly because of economic, fiscal and political uncertainty in Europe and the U.S.

Although Canada is not immune to what is happening in the rest of the world, the economy began to grow again in July following a dip during the second calendar quarter. This is a sign that the fundamentals of the economy remain healthy, with strength in many sectors. Concerns remain that fallout from uncertainty in the U.S. and Europe will spread to Canada, but for the most part, small and medium-sized businesses are planning on stable operating results with some modest growth.

As of September 30, 2011, the Financing[1] portfolio stood at $14.8 billion, a 2% increase compared with March 31, 2011. BDC's growth has stabilized in fiscal 2012 due to improved credit conditions and more capital availability from other financial institutions. These two factors resulted in higher loan prepayments and repayments, as well as lower disbursements.

BDC's modest portfolio increase follows a period of rapid growth during the recent recession and recovery that demonstrated the need for a countercyclical lender with the flexibility and expertise to act quickly to complement other market players. BDC continues to finance creditworthy projects that generally are riskier than those accepted by private sector financial institutions. Furthermore, our financing portfolio remains healthy and well diversified across regions and industries.

As BDC is a complementary lender, its level of activities during the quarter was affected as more capital became available from other financial institutions. Our financing clients accepted $889 million in loans, a decrease from the $1 billion recorded for the same period last year. For the six months ended September 30, 2011, a total of $1.7 billion in loans was accepted, a level consistent with last year.

In the second quarter of fiscal 2012, BDC posted consolidated net income of $106 million[2], compared to $103 million[2] for the same period last year. Net income for the first half of fiscal 2012 was $282 million[3] ($171 million[3] last year), representing a return on average total assets of 3%. The increase in the year-to-date profitability was mainly due to a decrease of our allowance for credit losses, resulting from the improved financial health of our clients.

Among the highlights in our other lines of business, Subordinate Financing clients accepted $37 million in financing in the second quarter, for a total of $69 million for the six-month period. This was a strong result when compared with $29 million and $41 million recorded respectively for the same periods last year.

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(1) Unless otherwise indicated, Financing excludes Subordinate Financing.

(2) Including $5.4 million and $1.9 million net income attributable to non-controlling interests for fiscal 2012 and 2011, respectively.

(3) Including $7.2 million and $5.9 million net income attributable to non-controlling interests for fiscal 2012 and 2011, respectively.

The Business Development Bank of Canada (BDC) is a Crown corporation wholly owned by the Government of Canada.

Our mission is to help create and develop Canadian businesses through financing, venture capital and consulting services, with a focus on small and medium-sized enterprises.

When they succeed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

EXECUTIVE SUMMARY

During the quarter, Venture Capital authorized $36 million in investments, compared with $10 million for the same period last year. For the six-month period ended September 30, 2011, a total of $55 million was authorized, representing an increase of $23 million compared with last year.

In addition, BDC and its investment partners won Canada's Venture Capital and Private Equity Association's 2011 Venture Capital Deal of the Year Award for their investment in Radian6 Technologies Inc. BDC is proud to have supported this Canadian success story, based in Fredericton, from seed stage start-up to its current status as a significant and sustainable anchor high-tech company in Canada.

Consulting initiated new mandates with 463 clients during the quarter for a total of 966 clients for the six-month period. This compares with 519 and 978 clients for the same periods last year, respectively. The level of activity continues to be affected by economic uncertainty, as Canadian entrepreneurs seem to be reluctant to spend available working capital on discretionary items such as consulting.

Despite its relatively enviable economic position, Canada still faces fundamental, long-term challenges. A key concern is low levels of productivity and innovation in Canadian businesses. Increasing the use of information and communications technology (ICT) is a proven way for businesses to increase their productivity and capacity to innovate.

In fiscal 2011, BDC conducted an assessment of the ICT needs of Canadian businesses and, during the next quarter, we will launch a series of consulting and financing solutions aimed at encouraging entrepreneurs to make more aggressive use of ICT.

During the quarter, an originator under the Canadian Secured Credit Facility (CSCF) exercised its right to redeem $1.7 billion in asset-backed securities (ABS) held by BDC. This redemption, to occur in October, is the result of improved availability of attractive financing options in this market segment.

In other highlights, BDC was named, for the sixth consecutive year, one of Canada's Top 100 employers, reflecting the excellence of our entrepreneurial work environment. This award is an important achievement, especially considering the high calibre of Canadian employers invited to participate in the competition.

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From time to time, we make written or oral forward-looking statements. We may make forward-looking statements in this quarterly financial report. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These uncertainties give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed.

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. This standard is issued by the Treasury Board of Canada, Secretariat, to provide parent Crown corporations with the form and content of the quarterly financial report under the authority of section 131.1 of the *Financial Administration Act*. There is no requirement for an audit or review of the financial statements included in the quarterly financial report. Therefore, the quarterly Consolidated Financial Statements included in this report have not been audited or reviewed by an external auditor.

ADOPTION OF IFRS

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that all publicly accountable Canadian enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

In December 2009, the Public Sector Accounting Board confirmed that government business enterprises must adhere to the standards applicable to publicly accountable enterprises.

Therefore, BDC started applying IFRS for its quarterly Consolidated Financial Statements beginning on April 1, 2011. These statements also include comparative fiscal 2011 financial results restated to comply with IFRS. Note 13 to its unaudited quarterly Consolidated Financial Statements contains a detailed description of the impact of BDC's conversion to IFRS, including a reconciliation of its financial statements previously prepared under Canadian generally accepted accounting principles (GAAP) to those under IFRS.

RISK MANAGEMENT

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based in part on its obligation to remain financially sustainable.

BDC's risk management is accomplished through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. ERM is reviewed by the board of directors and its committees. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's ERM framework.

No significant changes were made to BDC's ERM framework and no new risks were identified during the quarter ended September 30, 2011. For additional information about BDC's risk management, refer to our fiscal 2011 Annual Report (the Risk Management section of the Management Discussion and Analysis, as well as Note 19 to the Consolidated Financial Statements).

ANALYSIS OF FINANCIAL RESULTS

Analysis of financial results is provided to enable a reader to assess BDC"s results of operations and financial condition for the three-month and the six-month period ended September 30, 2011, compared with the corresponding periods of the prior fiscal year. This analysis also includes comments about significant variances to BDC's fiscal 2012-2016 Corporate Plan, which has not yet been approved.

BDC reports on five business segments: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization. All amounts are in Canadian dollars, unless specified, and are based on unaudited quarterly Consolidated Financial Statements prepared in accordance with IFRS.

This analysis should be read in conjunction with the unaudited quarterly Consolidated Financial Statements included in this report and the fiscal 2011 Annual Report.

Net income

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Financing	92.4	95.5	250.2	137.9
Subordinate Financing	12.8	7.0	19.7	15.3
Venture Capital	(10.7)	(15.6)	(15.1)	(13.5)
Consulting	(2.7)	(1.9)	(5.8)	(4.5)
Securitization	14.1	17.9	32.6	35.9
Net income	105.9	102.9	281.6	171.1
Net income attributable to:				
BDC's shareholder	100.5	101.0	274.4	165.2
Non-controlling interests	5.4	1.9	7.2	5.9
Net income	105.9	102.9	281.6	171.1

Three months ended September 30

BDC reported consolidated net income of $105.9 million for the second quarter ended September 30, 2011, comprising $100.5 million attributable to BDC's shareholder and $5.4 million to non-controlling interests. This compares with $102.9 million consolidated net income for the second quarter of fiscal 2011, of which $1.9 million was attributable to non-controlling interests.

Non-controlling interests relate only to BDC Subordinate Financing and BDC Venture Capital operations.

Six months ended September 30

BDC consolidated net income was $281.6 million for the six months ended September 30, 2011, compared with $171.1 million for the same period last year. These results included $7.2 million and $5.9 million net income attributable to non-controlling interests, respectively.

Strong consolidated net income for the current six-month period was generated mostly by BDC Financing during the first quarter, primarily due to a decrease of the allowance for credit losses. Refer to the Financing section of this analysis for further information.

BDC expects its consolidated net income for fiscal 2012 to exceed the Corporate Plan target of $247 million, mainly as a result of lower-than-anticipated impairment losses on loans.

Comprehensive Income

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Net income	**105.9**	102.9	**281.6**	171.1
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(1.1)**	15.0	**(13.4)**	46.4
Net change in unrealized gains (losses) on cash flow hedges	**11.2**	2.9	**17.9**	5.9
Actuarial gains (losses) on post-employment benefits	**(105.2)**	10.6	**(147.5)**	(19.3)
Other comprehensive income (loss)	(95.1)	28.5	(143.0)	33.0
Comprehensive income	**10.8**	131.4	**138.6**	204.1
Comprehensive income attributable to:				
BDC's shareholder	**5.4**	129.5	**131.4**	198.2
Non-controlling interests	**5.4**	1.9	**7.2**	5.9
Comprehensive income	**10.8**	131.4	**138.6**	204.1

Three and six months ended September 30

Comprehensive income for the second quarter was $10.8 million, for a total of $138.6 million for the six months ended September 30, 2011. Comprehensive income for the second quarter comprised $105.9 million consolidated net income and $95.1 million other comprehensive loss (OCI). OCI for the second quarter was affected by significant actuarial losses on post-employment benefits of $105.2 million, for total actuarial losses of $147.5 million for the six-month period.

Under IFRS, BDC has elected to recognize all actuarial gains and losses on post-employment benefits immediately in OCI at each reporting period. These actuarial gains and losses are transferred immediately to retained earnings at the end of each period, thus affecting capital adequacy and the debt-to-equity ratio.

Actuarial gains or losses are affected mainly by the actual return on plan assets and the discount rate used to determine defined benefit obligations. Losses recorded in the first six months of fiscal 2012 were the result of a lower-than-expected return on plan assets combined with a reduction in the discount rate used to value the defined benefit obligations.

In BDC's Corporate Plan, no value was assigned to actuarial gains or losses, since they are subject to significant volatility and uncertainty related to future economic conditions. At this time, it is difficult to predict whether these losses will be reversed in the last six months of fiscal 2012.

Financing Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Net interest and fee income	**193.7**	186.5	**382.8**	360.2
Impairment reversal (losses) on loans	**(16.6)**	(28.3)	**21.1**	(68.5)
Net gains (losses) on other financial instruments	**(5.9)**	7.5	**(2.6)**	(10.1)
Income before operating and administrative expenses	**171.2**	165.7	**401.3**	281.6
Operating and administrative expenses	**78.8**	70.2	**151.1**	143.7
Income from Financing	**92.4**	95.5	**250.2**	137.9

	Three months ended September 30		Six months ended September 30	
As % of average portfolio	**F2012**	F2011	**F2012**	F2011
Net interest and fee income	**5.2**	5.3	**5.2**	5.3
Impairment reversal (losses) on loans	**(0.4)**	(0.8)	**0.3**	(1.0)
Net gains (losses) on other financial instruments	**(0.2)**	0.2	**-**	(0.2)
Income before operating and administrative expenses	**4.6**	4.7	**5.5**	4.1
Operating and administrative expenses	**2.1**	2.0	**2.1**	2.1
Income from Financing	**2.5**	2.7	**3.4**	2.0

Three months ended September 30

For the second quarter of fiscal 2012, Financing income was $92.4 million, compared with $95.5 million for the same period last year. The main variances were as follows:

- higher net interest and fee income due to portfolio growth;
- lower impairment losses on loans as a result of the improved financial health of our clients;
- net losses on other financial instruments recorded during the quarter (compared with net gains in the second quarter of fiscal 2011), related mainly to the fair value change of long-term notes and derivatives resulting from changes in market conditions; and
- higher operating and administrative expenses, mainly related to the cost of additional staff needed to deploy new initiatives, investments in work process improvements and timing of certain expenses.

Six months ended September 30

Income from Financing was $250.2 million for the first six months of fiscal 2012, $112.3 million higher than for the same period last year. The increase in profitability was mostly the result of a decrease in BDC's allowance for credit losses. Net interest and fee income was also higher compared with last year, due to portfolio growth.

BDC maintains the allowance for credit losses at a level judged adequate to absorb credit losses in its portfolio. The allowance for credit losses is adjusted by annual impairment losses charged to net income.

BDC's allowance rate continues to be significantly higher than that of private sector financial institutions, because it finances creditworthy but riskier projects. However, the improved financial health of BDC's clients allowed the Bank to reduce the amount of money it must set aside for potential losses. This resulted in a reversal of impairment losses in the first quarter of fiscal 2012.

Income from Financing for fiscal 2012 is expected to be higher than the Corporate Plan objective of $207 million as a result of lower-than-anticipated impairment losses on loans. A significant factor influencing impairment losses is the level of loans that BDC downgrades from performing to impaired status. At planning time, BDC had not anticipated the strong improvement in downgrading rates it has experienced to date in fiscal 2012. However, the economic environment remains volatile, and unsettled market conditions could negatively affect the positive results recorded to date.

Subordinate Financing Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Net revenue on investments	16.3	12.3	26.9	23.9
Net change in unrealized appreciation (depreciation) of investments	1.2	(1.6)	1.3	(1.0)
Income before operating and administrative expenses	17.5	10.7	28.2	22.9
Operating and administrative expenses	4.7	3.7	8.5	7.6
Income from Subordinate Financing	12.8	7.0	19.7	15.3
Income attributable to:				
BDC's shareholder	6.6	4.5	11.5	8.6
Non-controlling interests	6.2	2.5	8.2	6.7
Income from Subordinate Financing	12.8	7.0	19.7	15.3

Three and six months ended September 30

Income from Subordinate Financing for the second quarter of fiscal 2012 was $12.8 million, for a total of $19.7 million for the six months ended September 30, 2011. Income included $6.2 million and $8.2 million attributable to non-controlling interests, for the three- and six-month periods, respectively.

These results compare positively with last year's income of $7.0 million for the second quarter and $15.3 million for the six-month period. The increase from fiscal 2011 was mainly caused by the following:

- higher net revenue from variable type returns and higher net interest income due to portfolio growth; and
- unrealized appreciation of investments recorded in fiscal 2012, compared with unrealized depreciation in fiscal 2011.

These variances were partially offset by higher operating and administrative expenses, mainly resulting from the implementation of a more rigorous internal cost allocation methodology between business segments.

Based on the performance of the first six months of fiscal 2012, BDC anticipates that Subordinate Financing income will be higher than the Corporate Plan target of $15 million for the year.

Venture Capital Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Net revenue (loss) on investments	(10.0)	(38.1)	7.9	(32.9)
Net change in unrealized appreciation (depreciation) of investments	0.5	30.1	(15.9)	29.5
Net unrealized foreign exchange gains (losses) on investments	12.1	(4.5)	10.7	1.7
Net gains (losses) on other financial instruments	(8.9)	3.4	(8.1)	(1.3)
Income (loss) before operating and administrative expenses	(6.3)	(9.1)	(5.4)	(3.0)
Operating and administrative expenses	4.4	6.5	9.7	10.5
Loss from Venture Capital	(10.7)	(15.6)	(15.1)	(13.5)
Loss attributable to:				
BDC's shareholder	(9.9)	(15.0)	(14.1)	(12.7)
Non-controlling interests	(0.8)	(0.6)	(1.0)	(0.8)
Loss from Venture Capital	(10.7)	(15.6)	(15.1)	(13.5)

Three months ended September 30

During the second quarter of fiscal 2012, Venture Capital recorded a $10.7-million loss, compared with a loss of $15.6 million for the same period last year. Results included a loss of $0.8 million in fiscal 2012 and a $0.6-million loss in fiscal 2011, attributable to non-controlling interests.

Net loss on investments of $10 million for the second quarter was significantly lower than last year ($38.1 million). Net realized losses for both quarters were mainly related to write-offs of investments. These had no impact on net results, as the fair value depreciation on these investments taken in prior periods was reversed at the time of the write-offs.

The net change in unrealized appreciation of $0.5 million for the quarter included the following:

- a $10-million net fair value depreciation of the portfolio ($8.3 million last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $10.5 million ($38.4 million last year).

BDC records unrealized foreign exchange gains or losses on its investments in foreign currencies. BDC monitors currency movements and uses foreign exchange contracts to partially hedge investments in foreign currencies. As a result, net gains or losses on other financial instruments partially offset amounts recognized due to currency movements.

Operating and administrative expenses amounted to $4.4 million for the quarter, compared with $6.5 million last year. Last year's expenses included costs incurred by BDC to perform an external review of the venture capital industry and its own venture capital operations.

Six months ended September 30

For the six months ended September 30, 2011, Venture Capital recorded a $15.1-million loss, compared with a loss of $13.5 million for the same period last year. The results for both years included a loss of $1 million and a loss of $0.8 million attributable to non-controlling interests, respectively.

Net revenue on investments of $7.9 million for the first six months was significantly better than the net loss on investments of $32.9 million last year, as one of our investee companies was acquired, generating an outstanding return of more than 16 times our original investment. This significant gain had, however, no impact on fiscal 2012 results, as a fair value appreciation on this investment was recognized in the fourth quarter of fiscal 2011.

The net change in unrealized depreciation of $15.9 million for the six months included the following:

- a $13.5-million net fair value depreciation of the portfolio ($4.1 million last year); and
- a reversal of net fair value appreciation on divested investments and write-offs totalling $2.4 million (reversal of $33.6 million of net fair value depreciation last year).

BDC recorded in $10.7 million of unrealized foreign exchange gains on its investments in foreign currencies, which was partially offset by a $8.1-million loss on foreign exchange contracts used to partially hedge investments in foreign currencies.

Operating and administrative expenses amounted to $9.7 million for the six-month period, compared with $10.5 million last year.

Consulting Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Revenue	5.6	5.9	11.4	12.2
Operating and administrative expenses	8.3	7.8	17.2	16.7
Loss from Consulting	(2.7)	(1.9)	(5.8)	(4.5)

Three and six months ended September 30

The loss from Consulting was $2.7 million for the second quarter of fiscal 2012, $0.8 million higher than the $1.9 million loss recorded for the same quarter last year. Cumulative loss for the six-month period totalled $5.8 million, compared with $4.5 million last year. As a result of the current economic uncertainty, Canadian entrepreneurs remain reluctant to buy consulting services because they want to preserve working capital.

Securitization Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2012	F2011	F2012	F2011
Net interest and fee income	14.6	18.2	33.6	35.0
Net gains (losses) on other financial instruments	-	0.1	(0.1)	2.1
Income before operating and administrative expenses	14.6	18.3	33.5	37.1
Operating and administrative expenses	0.5	0.4	0.9	1.2
Income from Securitization	14.1	17.9	32.6	35.9

Three months ended September 30

Securitization income for the second quarter was $14.1 million, compared with $17.9 million for the same period last year. Net interest and fee income was $3.6 million lower than last year, reflecting the decrease in the portfolio due to the expected maturity profile of the Canadian Secured Credit Facility (CSCF) portfolio and securities called prior to maturity.

Six months ended September 30

Income from Securitization for the six months ended September 30, 2011, totalled $32.6 million, compared with $35.9 million last year. The decrease in income was the combined result of lower net interest and fee income resulting from the decrease in the portfolio and net losses on other financial instruments of $0.1 million recorded in fiscal 2012 (compared with $2.1 million in net gains for the same period last year).

Operating and administrative expenses for the six months ended September 30, 2011, totalled $0.9 million, compared with $1.2 million last year.

Subsequent to September 30, 2011, $1.7 billion of Asset-backed securities was redeemed by an originator prior to maturity. This event will affect Securitization results for the second half of fiscal 2012. The Corporate Plan objective was based on the assumption that BDC would hold all assets to maturity. Therefore, we do not expect to meet our corporate plan objective of $64 million in income for fiscal 2012.

Consolidated Statement of Financial Position and Cash Flows

As at September 30, 2011, total BDC assets amounted to $18.8 billion, an increase of $0.4 billion from March 31, 2011.

The asset-backed securities portfolio totalled $2.6 billion, compared with $3.1 billion at March 31, 2011. This portfolio consists mainly of AAA-rated term securities purchased under the Canadian Secured Credit Facility (CSCF). The decrease in the portfolio was primarily due to the expected maturity profile of the CSCF portfolio and securities called prior to maturity.

At $14.1 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($14.8 billion in gross portfolio and a $0.7 billion allowance for credit losses). Portfolio growth was slower than that experienced in recent years as a result of higher loan prepayments and repayments, and lower disbursements due to increased market liquidity.

As for BDC's investment portfolios, the Subordinate Financing portfolio stood at $416.1 million, representing a 7.5% growth since March 31, 2011. The Venture Capital portfolio was $417.3 million at September 30, 2011, compared with $413.8 million at March 31, 2011.

Derivative assets of $125.3 million and derivative liabilities of $33.1 million reflect the fair value of derivative financial instruments as of September 30, 2011. Net derivative fair value increased by $50.8 million compared with the value at March 31, 2011, as a result of interest rate changes and foreign exchange revaluation on swaps used to economically hedge BDC's structured long-term notes.

Post-employment benefit liability amounted to $239.5 million at September 30, 2011, representing an increase of $128.1 million compared with March 31, 2011 net post-employment benefit liability of $111.4 million (which included liabilities of $127.7 million and assets of $16.3 million). This significant increase was the result of actuarial losses recorded during the six-month period ended September 30, 2011. Refer to page 8 of this report for further information on actuarial gains and losses on post-employment benefits.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's contractual cash outflows, totalled $1.1 billion at September 30, 2011, compared with $653.2 million at March 31, 2011. Cash flows provided by investing and financing activities amounted to $391.2 million and $146.5 million for the six-month period, respectively, while operating activities used $130.8 million in cash flows.

At September 30, 2011, BDC funded its portfolios and liquidities with borrowings of $14.4 billion and total equity of $3.8 billion. Borrowings comprised $10.5 billion in short-term notes and $3.9 billion in long-term notes.

Under IFRS, equity comprises of $3.7 billion attributable to BDC's shareholder and $133 million attributable to non-controlling interests. Upon transition to IFRS, preferred shares of $230 million were also reclassified from equity to liabilities. Refer to Note 13, *First-time adoption of IFRS*, to the quarterly Consolidated Financial Statements included in this report for additional information.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

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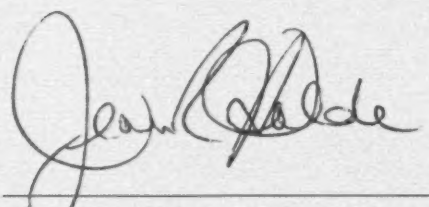
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines are necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.



Jean-René Halde
President and Chief Executive Officer

Paul Buron
Executive Vice President and
Chief Financial Officer

Montreal, Canada
November 4, 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2011	March 31, 2011	April 1, 2010 (Note 13)
ASSETS				
Cash and cash equivalents		**1,060,112**	653,231	1,022,571
Derivative assets		**125,256**	67,122	85,786
Loans and investments				
Asset-backed securities	5	**2,625,556**	3,068,949	3,277,291
Loans	6	**14,123,980**	13,731,011	12,525,521
Subordinate financing investments	7	**416,112**	387,091	357,732
Venture capital investments	8	**417,330**	413,782	367,917
		17,582,978	17,600,833	16,528,461
Property and equipment		**19,103**	18,524	16,944
Intangible assets		**28,178**	21,770	19,406
Post-employment benefit asset		**-**	16,309	-
Other assets		**17,041**	21,789	41,277
Total assets		**18,832,668**	18,399,578	17,714,445
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities		**65,642**	91,971	74,104
Derivative liabilities		**33,057**	25,751	73,233
Borrowings				
Short-term notes		**10,452,435**	9,719,923	5,558,990
Long-term notes		**3,938,990**	4,405,122	8,177,122
		14,391,425	14,125,045	13,736,112
Preferred shares	9	**230,000**	230,000	230,000
Post-employment benefit liability		**239,543**	127,667	186,855
Other liabilities		**40,143**	39,297	43,006
Total liabilities		**14,999,810**	14,639,731	14,343,310
Equity				
Share capital	9	**2,514,400**	2,514,400	2,514,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**1,128,323**	1,046,431	651,426
Accumulated other comprehensive income		**29,096**	24,593	989
Equity attributable to BDC's shareholder		**3,699,597**	3,613,202	3,194,593
Non-controlling interests		**133,261**	146,645	176,542
Total equity		**3,832,858**	3,759,847	3,371,135
Total liabilities and equity		**18,832,668**	18,399,578	17,714,445

Commitments (Note 11)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2011	2010	**2011**	2010
Interest income	**246,704**	235,108	**495,393**	448,950
Interest expense	**32,521**	24,731	**67,165**	42,065
Net interest income	**214,183**	210,377	**428,228**	406,885
Net realized gains (losses) on investments	**(7,751)**	(38,429)	**7,135**	(33,836)
Consulting revenue	**5,596**	5,898	**11,412**	12,261
Fee and other income	**8,124**	6,981	**15,974**	13,142
Net realized gains (losses) on other financial instruments	**306**	1,034	**2,452**	3,497
Net revenue	**220,458**	185,861	**465,201**	401,949
Impairment reversal (losses) on loans	**(16,667)**	(28,337)	**21,067**	(68,544)
Net change in unrealized appreciation (depreciation) of investments	**1,769**	28,405	**(14,581)**	28,430
Net unrealized foreign exchange gains (losses) on investments	**12,096**	(4,489)	**10,722**	1,706
Net unrealized gains (losses) on other financial instruments	**(15,070)**	10,056	**(13,364)**	(12,765)
Income before operating and administrative expenses	**202,586**	191,496	**469,045**	350,776
Salaries and benefits	**63,821**	56,611	**124,607**	115,964
Premises and equipment	**9,349**	9,965	**18,232**	18,956
Other expenses	**23,487**	22,022	**44,637**	44,796
Operating and administrative expenses	**96,657**	88,598	**187,476**	179,716
Net income	**105,929**	102,898	**281,569**	171,060
Net income attributable to:				
BDC's shareholder	**100,556**	100,979	**274,416**	165,217
Non-controlling interests	**5,373**	1,919	**7,153**	5,843
Net income	**105,929**	102,898	**281,569**	171,060

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 10 provides additional information on segmented net income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2011	2010	**2011**	2010
Net income	**105,929**	102,898	**281,569**	171,060
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(1,102)**	15,001	**(13,433)**	46,357
Net change in unrealized gains (losses) on cash flow hedges	**11,211**	2,909	**17,936**	5,948
Actuarial gains (losses) on post-employment benefits	**(105,252)**	10,574	**(147,453)**	(19,326)
Other comprehensive income (loss)	**(95,143)**	28,484	**(142,950)**	32,979
Comprehensive income	**10,786**	131,382	**138,619**	204,039
Comprehensive income attributable to:				
BDC's shareholder	**5,413**	129,463	**131,466**	198,196
Non-controlling interests	**5,373**	1,919	**7,153**	5,843
Comprehensive income	**10,786**	131,382	**138,619**	204,039

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Operating activities				
Net income	105,929	102,898	281,569	171,060
Adjustments to determine net cash flows				
Interest income	(246,704)	(235,108)	(496,393)	(448,950)
Interest expense	32,521	24,731	67,165	42,065
Net realized losses (gains) on investments	7,751	38,429	(7,135)	33,836
Impairment losses (reversal) on loans	16,667	28,337	(21,067)	68,544
Net change in unrealized depreciation (appreciation) on investments	(1,769)	(28,405)	14,581	(28,430)
Net unrealized foreign exchange losses (gains) on investments	(12,096)	4,489	(10,722)	(1,706)
Net unrealized losses (gains) on other financial instruments	15,070	(10,056)	13,364	12,765
Post-employment benefits funding in excess of amounts expensed	(13,541)	(13,538)	(19,269)	(14,706)
Amortization of property and equipment, and intangible assets	2,753	3,656	5,409	6,501
Other	(3,781)	(6,035)	(7,657)	(8,324)
Interest expense paid	(39,509)	(26,689)	(66,924)	(38,163)
Interest income received	251,404	234,274	499,389	450,587
Disbursements for loans	(861,636)	(946,425)	(1,510,682)	(1,724,546)
Repayments of loans	599,390	487,221	1,144,535	926,839
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	(24,953)	5,943	(23,596)	(20,450)
Net change in other assets and other liabilities	13,029	5,107	5,594	4,706
Net cash flows provided (used) by operating activities	(159,475)	(331,171)	(130,839)	(568,372)
Investing activities				
Disbursements for asset-backed securities	(21,196)	-	(39,854)	(300,000)
Repayments and proceeds on sale of asset-backed securities	84,520	87,085	472,496	178,490
Disbursements for subordinate financing investments	(28,441)	(22,421)	(66,260)	(41,244)
Repayments of subordinate financing investments	16,954	12,081	38,711	23,938
Disbursements for venture capital investments	(23,473)	(21,498)	(56,889)	(51,618)
Proceeds on sale of venture capital investments	3,079	4,821	55,376	21,605
Acquisition of property and equipment	(2,591)	(1,754)	(3,492)	(3,279)
Acquisition of intangible assets	(4,694)	(1,343)	(8,904)	(2,773)
Net cash flows provided (used) by investing activities	24,158	56,971	391,184	(174,882)
Financing activities				
Net change in short-term notes	656,150	873,763	733,242	2,249,185
Issue of long-term notes	-	-	6,587	305,000
Repayment of long-term notes	(161,880)	(599,987)	(522,673)	(1,951,201)
Distributions to non-controlling interests, net of capital injections	(7,815)	(6,068)	(20,537)	(14,073)
Dividends paid on common shares	-	-	(45,071)	-
Dividends paid on preferred shares	-	-	(5,012)	(6,402)
Net cash flows provided (used) by financing activities	486,456	267,707	146,536	582,509
Net increase (decrease) in cash and cash equivalents	351,138	(6,493)	406,881	(160,745)
Cash and cash equivalents at beginning of period	708,973	868,319	653,231	1,022,571
Cash and cash equivalents at end of period	1,060,111	861,826	1,060,112	861,826

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

1. BDC GENERAL DESCRIPTION

The Business Development Bank of Canada is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continues under its current name by an Act of Parliament enacted on July 13, 1995. BDC is incorporated in Canada, wholly owned by the Government of Canada and exempt from income taxes.

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and consulting services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on shareholder's capital, which is used to further BDC's activities. BDC does not receive appropriations from the Government of Canada.

2. BASIS OF PREPARATION

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada, Secretariat. These financial statements must be read in conjunction with BDC's 2011 Annual Report and with the Management's Discussion and Analysis included in this quarterly financial report.

These quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS). Until March 31, 2011, BDC's Consolidated Financial Statements were prepared in accordance with Canadian Generally Accepted Accounting Policies (GAAP), which applied prior to the conversion to IFRS. To comply with IFRS, management has amended certain recognition and measurement methods. The comparative figures for 2011 were restated to reflect these adjustments. An explanation of how the transition to IFRS has affected reported equity, net income, comprehensive income and cash flows is provided in Note 13, *First-time adoption of IFRS*.

The quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2012. Refer to Note 3, *Significant accounting policies*, for a description of these policies. If BDC changes the application of these policies, it may result in a restatement of these quarterly Consolidated Financial Statements, including the IFRS transition adjustment.

These Consolidated Financial Statements were approved for issue by the board of directors on November 4, 2011.

Basis of presentation and measurement

The Consolidated Financial Statements have been prepared under the historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivative contracts are all measured at fair value;
- the liability or asset in respect to post-employment benefits is recognized at the present value of the defined benefit obligation less the fair value of the plans' assets, together with adjustments for unrecognized past service costs.

These quarterly Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. The figures shown in the quarterly Consolidated Financial Statements are stated in thousands of Canadian dollars.

Basis of consolidation

BDC conducts business through a variety of entities, including a wholly owned subsidiary and several other subsidiaries.

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated accounts of the subsidiaries as of September 30, 2011, March 31, 2011, and April 1, 2010. The financial statements of the subsidiaries are prepared using uniform accounting and valuation methods for similar transactions.

Subsidiaries

Subsidiaries are entities controlled by BDC. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether BDC controls another entity.

In instances where BDC does not hold a majority of the voting rights, further analysis is performed to determine whether or not BDC has control of the entity. BDC is deemed to have control when it makes most of the decisions within the terms of the constituting agreements.

Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. No subsidiary has been acquired or disposed of during the reporting period. Inter-company transactions and balances are eliminated upon consolidation.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three month periods ended September 30
(unaudited)

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at June 30, 2011	2,514,400	27,778	1,133,019	13,838	5,149	18,987	3,694,184	135,703	3,829,887
Net income			100,556				100,556	5,373	105,929
Net change in unrealized gains (losses) on available-for-sale assets				(1,102)		(1,102)	(1,102)		(1,102)
Net change in unrealized gains (losses) on cash flow hedges					11,211	11,211	11,211		11,211
Actuarial gains (losses) on post-employment benefits			(105,252)				(105,252)		(105,252)
Distributions to non-controlling interests, net of capital injections								(7,815)	(7,815)
Balance at September 30, 2011	2,514,400	27,778	1,128,323	12,736	16,360	29,096	3,699,597	133,261	3,832,858

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at June 30, 2010	2,514,400	27,778	685,764	37,725	(2,341)	35,384	3,263,326	172,461	3,435,787
Net income			100,979				100,979	1,919	102,898
Net change in unrealized gains (losses) on available-for-sale assets				15,001		15,001	15,001		15,001
Net change in unrealized gains (losses) on cash flow hedges					2,909	2,909	2,909		2,909
Actuarial gains (losses) on post-employment benefits			10,574				10,574		10,574
Distributions to non-controlling interests, net of capital injections								(6,068)	(6,068)
Balance at September 30, 2010	2,514,400	27,778	797,317	52,726	568	53,294	3,392,789	168,312	3,561,101

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month periods ended September 30
(unaudited)

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at April 1, 2011	2,514,400	27,778	1,046,431	26,169	(1,576)	24,593	3,613,202	146,645	3,759,847
Net income			274,416				274,416	7,153	281,569
Net change in unrealized gains (losses) on available-for-sale assets				(13,433)		(13,433)	(13,433)		(13,433)
Net change in unrealized gains (losses) on cash flow hedges					17,936	17,936	17,936		17,936
Actuarial gains (losses) on post-employment benefits			(147,453)				(147,453)		(147,453)
Dividends on common shares			(45,071)				(45,071)		(45,071)
Distributions to non-controlling interests, net of capital injections								(20,537)	(20,537)
Balance at September 30, 2011	2,514,400	27,778	1,128,323	12,736	16,360	29,096	3,699,597	133,261	3,832,858

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at April 1, 2010	2,514,400	27,778	651,426	6,369	(5,380)	989	3,194,593	176,542	3,371,135
Net income			165,217				165,217	5,843	171,060
Net change in unrealized gains (losses) on available-for-sale assets				46,357		46,357	46,357		46,357
Net change in unrealized gains (losses) on cash flow hedges					5,948	5,948	5,948		5,948
Actuarial gains (losses) on post-employment benefits			(19,326)				(19,326)		(19,326)
Distributions to non-controlling interests, net of capital injections								(14,073)	(14,073)
Balance at September 30, 2010	2,514,400	27,778	797,317	52,726	568	53,294	3,392,789	168,312	3,561,101

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

The following entities have been consolidated in BDC's Consolidated Financial Statements.

Entity	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held	Basis of control
BDC Capital Inc.	Holding company structure for investment activities	Canada	100%	Voting power
AlterInvest Investment Fund Inc.	Investments in subordinate financing loans	Canada	50%	Voting power and contractual agreements
AlterInvest Fund L.P.	Investments in subordinate financing loans	Canada	50%	Voting power and contractual agreements
AlterInvest II Fund L.P.	Investments in subordinate financing loans	Canada	50%	Voting power and contractual agreements
Go Capital L.P.	Investments in venture capital	Canada	20%	Voting power and contractual agreements

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in consolidated net income and comprehensive income as net income attributable to non-controlling interests.

Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Venture capital investments in associates that are held as part of BDC's investment portfolio are carried in the Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investment in Associates*, which specifically excludes investments in associates held by venture capital organizations from its scope when those investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these quarterly Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these quarterly Consolidated Financial Statements and in preparing the opening IFRS Statement of Financial Position at April 1, 2010, and have been applied consistently by all entities consolidated by BDC.

Financial instruments

Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognized when BDC becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when the related contractual obligation is extinguished, discharged or cancelled, or when it expires.

Financial instruments are recognized and derecognized using settlement date accounting.

On initial recognition, financial instruments are measured at fair value, plus transaction costs directly attributable to their acquisition or issue, except for financial instruments carried at fair value through profit or loss, for which transaction costs are recognized in net income in the period when they are incurred.

Financial instruments are measured in subsequent periods either at fair value or at amortized cost using the effective interest rate method, depending on the financial instrument classification.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its carrying amount. When calculating the effective interest rate, BDC estimates future cash flows, considering all contractual terms of the financial instrument.

Classification of financial instruments

The following table summarizes the classification of BDC's financial instruments as at September 30 and March 31, 2011.

September 30, 2011

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets								
Cash and cash equivalents						1,060,112		1,060,112
Derivative assets		109,053			16,203			125,256
Asset-backed securities	5		1,742	2,623,814				2,625,556
Loans	6					14,123,980		14,123,980
Subordinate financing investments	7		416,112					416,112
Venture capital investments	8		417,330					417,330
Other assets[2]						12,067		12,067
Liabilities								
Accounts payable and accrued liabilities							65,642	65,642
Derivative liabilities		33,057						33,057
Short-term notes							10,452,435	10,452,435
Long-term notes			775,521				3,163,469	3,938,990
Preferred shares	9						230,000	230,000
Other liabilities[2]							25,142	25,142

March 31, 2011

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets								
Cash and cash equivalents						653,231		653,231
Derivative assets		66,181			941			67,122
Asset-backed securities	5			3,068,949				3,068,949
Loans	6					13,731,011		13,731,011
Subordinate financing investments	7		387,091					387,091
Venture capital investments	8		413,782					413,782
Other assets[2]						17,260		17,260
Liabilities								
Accounts payable and accrued liabilities							91,971	91,971
Derivative liabilities		23,118			2,633			25,751
Short-term notes							9,719,923	9,719,923
Long-term notes			790,460				3,614,662	4,405,122
Preferred shares	9						230,000	230,000
Other liabilities[2]							25,554	25,554

[1] Fair value through profit or loss.

[2] Certain items within he other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

Fair value through profit or loss

Financial instruments carried at fair value through profit or loss include financial instruments that are either (i) classified as held-for-trading; or (ii) designated at fair value through profit or loss upon initial recognition if they meet certain conditions.

FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

A financial instrument is classified as held-for-trading in the following circumstances:

- it is acquired or incurred principally for the purpose of selling or repurchasing instruments in the near term; or
- at initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivative financial instruments are also classified as held-for-trading unless they are designated as hedging instruments.

FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

A financial instrument can be designated at fair value through profit or loss in the following circumstances:

- the asset or liability is managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- the asset or liability contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract.

A description of the basis for each designation is set out in the *Major types of financial instruments* section of this note.

Subsequent to initial recognition, financial instruments classified or designated at fair value through profit or loss are measured at fair value, with the variation of unrealized gains or losses being recognized in the Consolidated Statement of Income as follows:

- net change in unrealized appreciation or depreciation of investments and net unrealized foreign exchange gains or losses on investments when related to asset-backed securities, subordinate financing and venture capital investments; or
- net unrealized gains or losses on other financial instruments when related to derivatives and borrowings.

Gains and losses upon the sale or disposal of these financial instruments are included directly in the Consolidated Statement of Income and are reported as follows:

- net realized gains or losses on investments when related to asset-backed securities, subordinate financing and venture capital investments; or
- net realized gains or losses on other financial instruments when related to derivatives and borrowings.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are:

- intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity, or subsequent to changes in interest rates, exchange rates or equity prices; and
- not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (OCI) until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income during the period in which the asset is determined to have become impaired.

Upon disposal of available-for-sale assets, the accumulated fair value adjustments recognized in OCI are reclassified to the Consolidated Statement of Income and are reported as net realized gains or losses on investments.

Cash flow hedge

BDC designates certain derivatives held for risk management as cash flow hedges. BDC documents all hedging relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. BDC assesses whether the derivatives used in hedging transactions are effective in offsetting changes in cash flow of hedged items, both at inception and over the life of the hedge.

Subsequent to initial recognition, derivatives designated as cash flow hedges are measured at fair value. The effective portion of changes in fair value of these derivatives is recognized in OCI, while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net unrealized gains or losses on other financial instruments.

If these hedging instruments are derecognized prior to maturity, the amounts previously recognized in OCI are reclassified to the Consolidated Statement of Income as net realized gains or losses on other financial instruments during the periods when the variability in the cash flows of the hedged item affects net income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

Other liabilities measured at amortized cost

Financial liabilities that are not carried at fair value through profit or loss fall into this category and are measured subsequently at amortized cost using the effective interest rate method.

Major types of financial instruments

Cash equivalents

Cash equivalents include short-term bank notes and repurchase agreements that have maturities at the original acquisition date of less than three months and are used to manage liquidity risk. Cash equivalents have been classified as loans and receivables.

Asset-backed securities

The asset-backed securities (ABS) portfolio consists of investment-grade senior and subordinated medium-term notes issued by way of prospectus or private placement.

Investment-grade senior ABS are classified as available-for-sale assets, and subordinated medium-term ABS notes are designated as fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. ABS presented on the Consolidated Statement of Financial Position include accrued interest receivable.

The fair value of ABS is calculated using forecasted cash flows and an estimated yield curve that is derived from the Canadian government yield curve and ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

A loss or gain on initial recognition of ABS is recorded if there is a difference between the security's yield and the market-demanded yield for similar investments. This loss or gain is amortized over the life of the security using the effective interest rate method and recognized in interest income.

IMPAIRMENT OF ASSET-BACKED SECURITIES

BDC reviews ABS classified as available-for-sale for possible impairment at each reporting date. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses are recognized in the Consolidated Statement of Income during the period in which objective evidence of impairment is identified.

Loans

Loans are classified as loans and receivables. They are measured at amortized cost using the effective interest rate method, less allowance for credit losses. Loans presented on the Consolidated Statement of Financial Position include accrued interest receivable.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the portfolio at the financial reporting date. Allowances for credit losses are established at both the individual and collective level.

BDC reviews its loan portfolio on an individual asset basis to assess credit risk and determines whether there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statement of Income. There is objective evidence of impairment when the interest or principal of a loan is more than three consecutive months in arrears or if there is reason to believe that a portion of the principal or interest cannot be collected.

The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the estimated future cash flows using the initial effective interest rate of the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying collateral, whether or not foreclosure is probable. The carrying amount of the impaired loan is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income as impairment losses on loans.

When a subsequent event causes the amount of impairment loss to increase or decrease after the impairment was initially recognized, the increase or decrease is recorded through Impairment losses or reversals on loans in the Consolidated Statement of Income. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified.

Subordinate financing and venture capital investments

Upon initial recognition, subordinate financing and venture capital investments are designated at fair value through profit or loss on the basis that they are part of a portfolio that is reported to and evaluated by senior management on a fair value basis, in accordance with a documented investment and risk management strategy.

BDC's approach to fair value measurement for both subordinate financing and venture capital investments has been derived from international guidelines. Based on the type of investments carried out, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods.

Borrowings

Short-term notes are measured at amortized cost.

BDC has two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest and/or principal is linked to fluctuations in equity indices, currency rates, swap rates and other market references. These structured notes have been designated at fair value through profit or loss, as they contain embedded derivatives that significantly modify the cash flows that would otherwise be required under the host debt contract.

The fair value of structured notes is determined by using observable market data together with valuation models developed from recognized valuation techniques. Observable market data are sourced from leading inter-dealer brokers and include interest rates, foreign exchange rates, equity prices and other market references.

Interest accrued on borrowings is included in the carrying amount of both short- and long-term notes.

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices, commodity prices or other financial measures. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes. Derivatives are either designated as cash flow hedges or classified as held-for-trading.

All BDC derivatives are over-the-counter and mainly composed of swaps and foreign exchange forwards. The fair value of swaps is calculated using a discounted cash flow method. The fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curve of the respective currencies. Inputs to both these calculations are market observable data sourced from leading inter-dealer brokers, together with industry standard valuation models for estimating fair value.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at September 30 and March 31, 2011, BDC had no embedded derivatives that must be separated from a host contract.

Preferred shares classified in liabilities

Given that preferred shares have a feature that requires a non-discretionary annual interest payment at a rate that is periodically adjusted to reflect the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares, preferred shares are classified, on initial recognition, as a combined instrument, with a liability component and an equity component.

Based on market conditions existing on initial recognition, the liability component is equal to the fair value of the entire instrument and the proceeds received. Consequently, the equity component is initially and subsequently valued at zero.

Subsequent to initial recognition, the liability component is measured at amortized cost, which is essentially its face value, given that the initial rate at which dividends are paid is considered to be a market rate and that there are no transaction costs upon issuance.

The dividends relating to the preferred shares classified as financial liabilities are recognized as interest expense in the Consolidated Statement of Income.

Interest income, interest expense and fee income

Interest income and expense for interest-bearing financial instruments are recognized in interest income and interest expense in the Consolidated Statement of Income using the effective interest rate method, with the exception of subordinate financing investments, for which interest income is recognized using the contractual rate of the instrument. Interest on impaired loans continues to be recognized using the interest rate used to discount the future cash flows for the purposes of measuring the impairment loss.

Subordinate financing investments also bear non-interest returns, such as royalties and interest bonuses, which are recognized in fee and other income in the Consolidated Statement of Income when reasonable assurance of realization is achieved.

Fees that are integral to originating or renegotiating a loan are deferred and recognized as interest income over the expected term of the loan using the effective interest rate method. All other fees are recognized in profit or loss as the related services are performed.

Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate.

Property and equipment, and intangible assets

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

Property and equipment are amortized using the straight-line method over the estimated useful life of the asset, as follows:

> computer and telecommunications equipment	4 years
> furniture, fixtures and equipment	10 years
> leasehold improvements	lease term, which averages approximately 6 years

Intangible assets

Intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Intangible assets primarily comprise systems and software applications, the cost of which includes the purchase price plus any costs incurred to prepare them for their intended internal use. The intangible assets are finite and are amortized using the straight-line method over their estimated useful economic lives, which range from three to seven years. Costs related to projects in progress are not subject to amortization. The amortization expense is included in Operating and administrative expenses in the Consolidated Statement of Income.

Impairment of property and equipment, and intangible assets

The residual values and useful lives of items of property and equipment, and intangible assets, are reviewed, and adjusted if appropriate, at each reporting date.

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Irrespective of whether there is any indication of impairment, an impairment test is also performed on an annual basis for intangible assets not yet available for use.

When impairment tests indicate that the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Post-employment benefits

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other post-employment benefits (which include health, dental and life insurance coverage) for eligible employees.

A post-employment benefit asset or liability is recognized in the Consolidated Statement of Financial Position at the reporting date and represents the present value of the defined benefit obligation, together with adjustments for unrecognized past service costs, less the fair value of plan assets of the defined benefit pension plans.

The obligation is calculated for each plan using the projected unit credit method. In determining the present value of its defined benefit obligations and the related current service cost and past service cost, BDC attributes the benefit to periods of service under the plan's benefit formula. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the obligation.

Actuarial gains or losses on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains or losses on the defined benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the defined benefit obligation. All actuarial gains and losses are recognized immediately in OCI and in retained earnings, and are not reclassified into net income in a subsequent period.

Past service costs are recognized immediately in net income, unless the changes to the plans are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Equity attributable to BDC's shareholder

Share capital represents the par value of common shares issued and in circulation. Contributed surplus represents the amount of the proceeds received upon issuance of shares, in excess of their par value.

Unrealized gains and losses on financial instruments classified as available-for-sale assets are included in accumulated other comprehensive income until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Gains and losses on derivative financial instruments designated as hedging instruments are included in accumulated other comprehensive income until such time as the hedged forecasted cash flows affect earnings.

Retained earnings include all current and prior periods' retained earnings or losses, net of dividends paid.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the reporting date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the reporting period. Foreign exchange gains and losses are included in profit or loss.

Segmented information

BDC has the following operating segments, which are organized around differences in products and services: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization.

The operating segments are reported in a manner consistent with how BDC presents and discloses information that is regularly reviewed by the senior management team and the board of directors in assessing performance.

All transactions between business segments are recognized on an arm's-length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the quarterly Consolidated Financial Statements using IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these assumptions on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the quarterly Consolidated Financial Statements are summarized below.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Consolidated Statement of Financial Position cannot be derived from active markets (i.e., from quoted market prices or dealer price quotations), it is determined using valuation techniques, including discounted cash flow models.

The inputs to these models, such as interest rate yield curves, equity prices, commodity and currency prices and yields, volatilities of underlying assumptions, and correlations between inputs, are taken from observable markets where possible. Where this is not feasible, a degree of judgement is required in establishing fair values.

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3, *Significant accounting policies*, for more information of valuation techniques used for each type of financial instrument.

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, BDC has determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Allowance for credit losses

The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset level.

BDC determines the allowance based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make assumptions and judgements by carrying out certain activities, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends and on portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable assumptions, can materially affect the allowance level.

Impairment of available-for-sale assets

BDC determines that asset-backed securities are impaired when there is objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired may include such events as the financial difficulty or probable bankruptcy or financial reorganization of the issuer, a default or adverse change in status or concession with respect to payments, measurable decreases in the estimated future cash flows from the assets, and a deterioration of correlated economic conditions. Since a combination of factors may cause an impairment, management judgement is required to determine if and when an impairment must be recognized.

Post-employment benefit asset and liability

The cost of defined benefit pension plans and other post-employment benefits, and the present value of the related obligations, are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected rates of return on assets available to fund pension obligations, expected future salary increases, expected mortality rates, expected health-care cost trends and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results will differ from results that are estimated based on assumptions.

Consolidation

A key judgement that has been used in the preparation of the quarterly Consolidated Financial Statements is that BDC has the power to control certain investment funds (refer to Note 2, *Basis of preparation*, for additional information). BDC has assessed that it has the power to control the financial and operating policies of these funds through a combination of contractual agreements and voting power, and that it is able to use that control to generate variable returns. Consequently, these funds have been fully consolidated rather than accounted for using a proportional consolidation or equity accounting approach.

5. ASSET-BACKED SECURITIES

	September 30, 2011	March 31, 2011
Available-for-sale		
Principal amount	**2,611,404**	3,046,801
Unamortized loss on initial recognition	**(325)**	(4,084)
Cumulative fair value appreciation (depreciation)	**12,735**	26,232
Carrying value	**2,623,814**	3,068,949
Yield	**2.80%**	2.78%
Fair value through profit or loss		
Principal amount	**1,712**	-
Cumulative fair value appreciation (depreciation)	**30**	-
Carrying value	**1,742**	-
Yield	**9.50%**	-
Asset-backed securities	**2,625,556**	3,068,949

No asset-backed securities were impaired as at September 30 or March 31, 2011.

6. LOANS

The following table summarizes loans outstanding. Floating-rate loans are classified based on their maturity date and fixed-rate loans are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	609,256	3,070,350	10,576,918	14,256,524	(459,500)	-	(459,500)	13,797,024
Impaired	51,754	117,817	388,238	557,809	-	(230,853)	(230,853)	326,956
Loans as at September 30, 2011	661,010	3,188,167	10,965,156	14,814,333	(459,500)	(230,853)	(690,353)	14,123,980

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	748,733	3,057,810	10,112,957	13,919,500	(524,500)	-	(524,500)	13,395,000
Impaired	70,006	128,492	387,689	586,187	-	(250,176)	(250,176)	336,011
Loans as at March 31, 2011	818,739	3,186,302	10,500,646	14,505,687	(524,500)	(250,176)	(774,676)	13,731,011

Allowance for credit losses

	Six months ended September 30, 2011
Balance at beginning of period	774,676
Write-offs and other	(62,569)
Effect of discounting	(6,776)
Recoveries	6,089
	711,420
Impairment losses (reversal) on loans	(21,067)
Balance at end of period	690,353

Concentrations of total loans outstanding

		September 30, 2011		March 31, 2011
Geographic distribution				
Newfoundland and Labrador	582,294	3.9%	554,681	3.8%
Prince Edward Island	40,202	0.3%	41,656	0.3%
Nova Scotia	395,634	2.7%	396,227	2.7%
New Brunswick	472,959	3.2%	466,658	3.2%
Quebec	4,891,812	33.0%	4,708,670	32.6%
Ontario	4,332,679	29.2%	4,364,728	30.1%
Manitoba	356,712	2.4%	326,301	2.2%
Saskatchewan	339,720	2.3%	320,845	2.2%
Alberta	1,600,133	10.8%	1,580,473	10.9%
British Columbia	1,697,581	11.5%	1,644,360	11.3%
Yukon	74,283	0.5%	70,524	0.5%
Northwest Territories and Nunavut	30,324	0.2%	30,564	0.2%
Loans outstanding	14,814,333	100.0%	14,505,687	100.0%

		September 30, 2011		March 31, 2011
Industry sector				
Manufacturing	3,819,174	25.8%	3,873,423	26.7%
Wholesale and retail trade	3,217,686	21.7%	3,092,093	21.3%
Tourism	1,814,559	12.2%	1,778,292	12.3%
Commercial properties	1,447,405	9.8%	799,962	5.5%
Construction	1,122,781	7.6%	1,355,801	9.3%
Transportation and storage	852,985	5.8%	1,083,297	7.5%
Business services	627,941	4.2%	641,932	4.4%
Other	1,911,802	12.9%	1,880,887	13.0%
Loans outstanding	14,814,333	100.0%	14,505,687	100.0%

7. SUBORDINATE FINANCING INVESTMENTS

BDC holds a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes subordinate financing investments outstanding. Floating-rate investments are classified based on their maturity date, and fixed-rate investments are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Cumulative fair value depreciation	Total fair value
As at September 30, 2011	71,445	311,532	47,213	430,190	(14,078)	416,112
As at March 31, 2011	60,585	299,326	42,581	402,492	(15,401)	387,091

Concentrations of total subordinate financing investments

		September 30, 2011		March 31, 2011
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**20,667**	**20,290**	20,991	20,910
Nova Scotia	**9,931**	**9,799**	7,624	7,801
New Brunswick	**8,868**	**9,781**	9,686	10,061
Quebec	**196,244**	**213,809**	196,040	208,929
Ontario	**119,112**	**117,127**	95,438	96,833
Manitoba	**3,289**	**3,116**	5,084	4,761
Saskatchewan	**680**	**671**	685	675
Alberta	**33,624**	**31,250**	33,292	32,987
British Columbia	**23,697**	**24,347**	18,251	19,535
Subordinate financing investments	**416,112**	**430,190**	387,091	402,492

		September 30, 2011		March 31, 2011
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**159,463**	**165,508**	148,892	157,651
Business services	**86,308**	**92,153**	69,027	73,600
Wholesale and retail trade	**70,168**	**67,925**	70,598	68,284
Construction	**25,005**	**26,306**	18,896	19,529
Transportation and storage	**10,660**	**9,617**	12,127	10,736
Technologies	**4,404**	**6,023**	4,228	6,018
Tourism	**3,693**	**3,590**	3,380	3,237
Industrial technologies	**1,035**	**1,625**	1,161	1,625
Biotechnology	**1,057**	**1,057**	907	907
Other	**54,319**	**56,386**	57,875	60,905
Subordinate financing investments	**416,112**	**430,190**	387,091	402,492

8. VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations and investment types of venture capital investments are listed below.

	September 30, 2011		March 31, 2011	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**74,741**	**91,172**	102,840	90,106
Communications	**66,707**	**51,222**	48,195	53,912
Biotechnology and pharmacology	**65,257**	**106,446**	75,837	112,422
Electronics	**61,169**	**70,096**	55,161	70,598
Medical and health	**37,185**	**49,828**	33,736	43,204
Industrial	**8,494**	**18,557**	7,704	14,007
Other	**5,513**	**5,173**	3,334	3,250
Total direct investments	**319,066**	**392,494**	326,807	387,499
Funds	**98,264**	**114,646**	86,975	110,881
Venture capital investments	**417,330**	**507,140**	413,782	498,380

	September 30, 2011		March 31, 2011	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**51,541**	**99,299**	54,573	87,508
Preferred shares	**229,585**	**247,260**	240,030	259,924
Debt instruments	**37,940**	**45,935**	32,204	40,067
Total direct investments	**319,066**	**392,494**	326,807	387,499
Funds	**98,264**	**114,646**	86,975	110,881
Venture capital investments	**417,330**	**507,140**	413,782	498,380

9. SHARE CAPITAL AND PREFERRED SHARES

Authorized:

(a) an unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) an unlimited number of common shares, having a par value of $100 each.

	September 30, 2011			March 31, 2011		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares classified as liabilities						
Class A - Series 1	500,000	50,000	2.625%	500,000	50,000	2.625%
- Series 2	500,000	50,000	1.815%	500,000	50,000	1.815%
- Series 3	500,000	50,000	2.205%	500,000	50,000	2.205%
- Series 4	400,000	40,000	1.400%	400,000	40,000	1.400%
- Series 5	400,000	40,000	1.690%	400,000	40,000	1.690%
		230,000			230,000	
Common shares	25,144,000	2,514,400		25,144,000	2,514,400	
Total outstanding		2,744,400			2,744,400	

Class A preferred shares have a fixed, preferential and cumulative dividend, and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the Consolidated Revenue Fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Although preferred shares are classified in liabilities, as per the *Business Development of Canada Act* (BDC Act), these shares are to be included in the calculation of capital regardless of their Consolidated Financial Statement classification.

Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed $3.0 billion. As at September 30, 2011, and March 31, 2011, and during the six-month period ended September 30, 2011, BDC met both of these statutory limitation requirements.

Capital adequacy

Treasury Board of Canada, Secretariat, provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that it can withstand unfavourable economic circumstances without needing government funding. During the six-month period ended September 30, 2011, BDC operated in accordance with these capital adequacy guidelines.

10. SEGMENTED INFORMATION

BDC has five reportable segments, as described below, which are the Bank's business lines. Each business line offers different products and services, and is managed separately based on BDC's management and internal reporting structure.

The following summary describes the operations in each of the Bank's reportable segments.

- BDC **Financing** provides secured and specialized loans with a focus on small and medium-sized enterprises across Canada.
- BDC **Subordinate Financing** provides flexible quasi-equity and equity-type financing to more mature businesses to support specific growth projects.
- BDC **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
- BDC **Consulting** provides customized consulting services related to business activities.
- BDC **Securitization** purchases investments in asset-backed securities through the Canadian Secured Credit Facility and the Multi-Seller Platform for Small Originators. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. The main allocation methods used by BDC are described below.

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with the capital adequacy ratios provided by the Treasury Board of Canada, Secretariat, and is consistently aligned to the economic risks of each specific business segment. Refer to Note 15, *Statutory limitations and capital adequacy*, to the Consolidated Financial Statements in the 2011 Annual Report for more information.

Operating and administrative expenses include costs that were incurred directly by the business segments. Indirect costs incurred at the enterprise level are attributed to each segment using management's internal reporting framework.

Loan and investment portfolios are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

The following tables present financial information regarding the results of each reportable segment.

						Three months ended September 30, 2011
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	246,704	216,012	11,968	-	-	18,724
Interest expense	32,521	26,277	1,734	141	-	4,369
Net interest income (expense)	**214,183**	**189,735**	**10,234**	**(141)**	**-**	**14,355**
Net realized gains (losses) on investments	(7,751)	-	3,125	(10,876)	-	-
Consulting revenue	5,596	-	-	-	5,596	-
Fee and other income	8,124	3,974	2,894	1,037	-	219
Net realized gains (losses) on other financial instruments	306	70	-	236	-	-
Net revenue (loss)	**220,458**	**193,779**	**16,253**	**(9,744)**	**5,596**	**14,574**
Impairment reversal (losses) on loans	(16,667)	(16,667)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	1,769	-	1,252	492	-	25
Net unrealized foreign exchange gains (losses) on investments	12,096	-	-	12,096	-	-
Net unrealized gains (losses) on other financial instruments	(15,070)	(5,908)	-	(9,162)	-	-
Income (loss) before operating and administrative expenses	**202,586**	**171,204**	**17,505**	**(6,318)**	**5,596**	**14,599**
Salaries and benefits	63,821	52,144	3,847	2,755	4,707	368
Premises and equipment	9,349	8,514	192	341	272	30
Other expenses	23,487	18,102	684	1,337	3,295	69
Operating and administrative expenses	**96,657**	**78,760**	**4,723**	**4,433**	**8,274**	**467**
Net income (loss)	**105,929**	**92,444**	**12,782**	**(10,751)**	**(2,678)**	**14,132**
Net income (loss) attributable to:						
BDC's shareholder	100,556	92,444	6,615	(9,957)	(2,678)	14,132
Non-controlling interests	5,373	-	6,167	(794)	-	-
Net income (loss)	**105,929**	**92,444**	**12,782**	**(10,751)**	**(2,678)**	**14,132**
Business segment portfolio at end of period	**17,582,978**	**14,123,980**	**416,112**	**417,330**	**-**	**2,625,556**

						Three months ended September 30, 2010
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	235,108	200,851	11,108	-	-	23,149
Interest expense	24,731	18,105	1,303	141	-	5,182
Net interest income (expense)	**210,377**	**182,746**	**9,805**	**(141)**	**-**	**17,967**
Net realized gains (losses) on investments	(38,429)	-	(173)	(38,256)	-	-
Consulting revenue	5,898	-	-	-	5,898	-
Fee and other income	6,981	3,750	2,704	301	-	226
Net realized gains (losses) on other financial instruments	1,034	26	-	928	-	80
Net revenue (loss)	**185,861**	**186,522**	**12,336**	**(37,168)**	**5,898**	**18,273**
Impairment reversal (losses) on loans	(28,337)	(28,337)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	28,405	-	(1,641)	30,046	-	-
Net unrealized foreign exchange gains (losses) on investments	(4,489)	-	-	(4,489)	-	-
Net unrealized gains (losses) on other financial instruments	10,056	7,530	-	2,526	-	-
Income (loss) before operating and administrative expenses	**191,496**	**165,715**	**10,695**	**(9,085)**	**5,898**	**18,273**
Salaries and benefits	56,611	46,396	3,172	2,591	4,123	329
Premises and equipment	9,965	9,363	169	233	171	29
Other expenses	22,022	14,416	381	3,732	3,488	5
Operating and administrative expenses	**88,598**	**70,175**	**3,722**	**6,556**	**7,782**	**363**
Net income (loss)	**102,898**	**95,540**	**6,973**	**(15,641)**	**(1,884)**	**17,910**
Net income (loss) attributable to:						
BDC's shareholder	100,979	95,540	4,489	(15,076)	(1,884)	17,910
Non-controlling interests	1,919	-	2,484	(565)	-	-
Net income (loss)	**102,898**	**95,540**	**6,973**	**(15,641)**	**(1,884)**	**17,910**
Business segment portfolio at end of period	**17,475,681**	**13,258,258**	**373,938**	**395,821**	**-**	**3,447,664**

	Six months ended September 30, 2011					
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	495,393	429,904	23,186	-	-	42,303
Interest expense	67,165	54,400	3,331	280	-	9,154
Net interest income (expense)	428,228	375,504	19,855	(280)	-	33,149
Net realized gains (losses) on investments	7,135	-	304	6,831	-	-
Consulting revenue	11,412	-	-	-	11,412	-
Fee and other income	15,974	7,362	6,741	1,377	-	494
Net realized gains (losses) on other financial instruments	2,452	96	-	2,468	-	(112)
Net revenue (loss)	465,201	382,962	26,900	10,396	11,412	33,531
Impairment reversal (losses) on loans	21,067	21,067	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(14,581)	-	1,323	(15,934)	-	30
Net unrealized foreign exchange gains (losses) on investments	10,722	-	-	10,722	-	-
Net unrealized gains (losses) on other financial instruments	(13,364)	(2,749)	-	(10,615)	-	-
Income (loss) before operating and administrative expenses	469,045	401,280	28,223	(5,431)	11,412	33,561
Salaries and benefits	124,607	100,526	6,955	6,844	9,531	751
Premises and equipment	18,232	16,584	378	669	541	60
Other expenses	44,637	34,007	1,191	2,208	7,130	101
Operating and administrative expenses	187,476	151,117	8,524	9,721	17,202	912
Net income (loss)	281,569	250,163	19,699	(15,152)	(5,790)	32,649
Net income (loss) attributable to:						
BDC's shareholder	274,416	250,163	11,524	(14,130)	(5,790)	32,649
Non-controlling interests	7,153	-	8,175	(1,022)	-	-
Net income (loss)	281,569	250,163	19,699	(15,152)	(5,790)	32,649
Business segment portfolio at end of period	17,582,978	14,123,980	416,112	417,330	-	2,625,556

	Six months ended September 30, 2010					
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	448,950	382,824	21,652	-	-	44,474
Interest expense	42,065	29,270	2,581	281	-	9,933
Net interest income (expense)	406,885	353,554	19,071	(281)	-	34,541
Net realized gains (losses) on investments	(33,836)	-	(217)	(33,619)	-	-
Consulting revenue	12,261	-	-	-	12,261	-
Fee and other income	13,142	6,650	5,042	1,003	-	447
Net realized gains (losses) on other financial instruments	3,497	52	-	1,365	-	2,080
Net revenue (loss)	401,949	360,256	23,896	(31,532)	12,261	37,068
Impairment reversal (losses) on loans	(68,544)	(68,544)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	28,430	-	(1,032)	29,462	-	-
Net unrealized foreign exchange gains (losses) on investments	1,706	-	-	1,706	-	-
Net unrealized gains (losses) on other financial instruments	(12,765)	(10,110)	-	(2,655)	-	-
Income (loss) before operating and administrative expenses	350,776	281,602	22,864	(3,019)	12,261	37,068
Salaries and benefits	115,964	94,574	6,609	5,482	8,632	667
Premises and equipment	18,956	17,774	242	539	341	60
Other expenses	44,796	31,368	770	4,501	7,738	419
Operating and administrative expenses	179,716	143,716	7,621	10,522	16,711	1,146
Net income (loss)	171,060	137,886	15,243	(13,541)	(4,450)	35,922
Net income (loss) attributable to:						
BDC's shareholder	165,217	137,886	8,607	(12,748)	(4,450)	35,922
Non-controlling interests	5,843	-	6,636	(793)	-	-
Net income (loss)	171,060	137,886	15,243	(13,541)	(4,450)	35,922
Business segment portfolio at end of period	17,475,681	13,258,258	373,938	395,821	-	3,447,664

11. COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments were $1,555,888 at September 30, 2011 ($170,789 fixed rate; $1,385,099 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate is 5.23% on loan commitments and 10.45% on subordinate financing commitments (excluding non-interest return). The following tables present undisbursed amounts of authorized loans and subordinate financing investments, by location and industry.

Geographic distribution	September 30, 2011	
Newfoundland and Labrador	43,515	2.8%
Prince Edward Island	8,537	0.5%
Nova Scotia	24,995	1.6%
New Brunswick	41,917	2.7%
Quebec	567,820	36.5%
Ontario	423,383	27.2%
Manitoba	45,488	3.0%
Saskatchewan	43,901	2.8%
Alberta	220,003	14.1%
British Columbia	127,310	8.2%
Yukon	6,348	0.4%
Northwest Territories and Nunavut	2,671	0.2%
Loans and subordinate financing investments	1,555,888	100.0%

Industry distribution	September 30, 2011	
Manufacturing	394,804	25.4%
Wholesale and retail trade	283,654	18.2%
Tourism	240,640	15.4%
Commercial properties	135,745	8.7%
Construction	131,125	8.4%
Transportation and storage	63,103	4.1%
Business services	74,198	4.8%
Other	232,619	15.0%
Loans and subordinate financing investments	1,555,888	100.0%

The undisbursed amount of authorized venture capital investments was $226,597 at September 30, 2011, and was related to the following industry sectors.

Industry sector	September 30, 2011	
Biotechnology and pharmacology	7,486	3.3%
Medical and health	6,300	2.8%
Communications	4,233	1.9%
Information technology	2,065	0.9%
Industrial	1,250	0.6%
Electronics	769	0.3%
Total direct investments	22,103	9.8%
Funds	204,494	90.2%
Venture capital investments	226,597	100.0%

The undisbursed amount of authorized asset-backed securities was $312,313 at September 30, 2011.

In addition, BDC has future minimum lease commitments under operating leases related to the rental of premises.

12. RELATED PARTY TRANSACTIONS

As at September 30, 2011, BDC had $10,423.9 million outstanding in short-term notes and $3,162.3 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($9,711.0 million in short-term notes and $3,512.3 million in long-term notes at March 31, 2011). Accrued interest on borrowings includes $4.6 million payable to the Minister of Finance as at September 30, 2011 ($5.2 million at March 31, 2011).

BDC recorded $29.5 million of interest expense, related to the borrowings with the Minister of Finance, for the second quarter and $59.8 million for the six months ended September 30, 2011. Last year's comparative figures for the same periods were $20.1 million and $31.9 million, respectively.

In addition, certain borrowings with the Minister of Finance were repurchased in fiscal 2012. This resulted in a net realized loss of $0.1 million for the six-month period ($2.1 million net realized gain for the same period last year).

BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

13. FIRST-TIME ADOPTION OF IFRS

These Consolidated Financial Statements are prepared in accordance with IFRS, which requires the application of IFRS 1, *First-time adoption of International Financial Reporting Standards*. The first date at which IFRS was applied is April 1, 2010 (hereafter, the "transition date").

BDC's IFRS accounting policies presented in Note 3 have been applied in preparing the Consolidated Financial Statements for the three- and six-month periods ended September 30, 2011, the comparative information, and the opening Consolidated Statement of Financial Position as at the transition date.

Initial elections upon adoption

IFRS 1 requires that an entity apply all IFRS effective at the end of its first IFRS reporting year retrospectively. IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exceptions from full retrospective application of IFRS. BDC has applied the relevant mandatory exceptions and has elected to apply the following optional exemptions:

- immediate recognition of all cumulative actuarial gains and losses deferred under previous Canadian GAAP in opening retained earnings as of the date of transition; and

- disclosure of the defined benefit obligations, plan assets, deficit and experience adjustments on post-employment benefit assets and liabilities prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS (this will only affect disclosure for the annual Consolidated Financial Statements for the year ended March 31, 2012).

Reconciliations of Canadian GAAP to IFRS

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income. The notes column refers to the notes to the reconciliations, which begin on page 50.

Reconciliation of Consolidated Equity

As at	Notes	March 31, 2011	September 30, 2010	April 1, 2010
Shareholder's equity under Canadian GAAP		4,008,321	3,854,040	3,643,016
Differences increasing (decreasing) retained earnings:				
Post-employment benefits	A	(165,669)	(229,441)	(219,230)
Dividends on preferred shares included in net income	C	-	(2,514)	-
Other		550	704	807
		(165,119)	**(231,251)**	**(218,423)**
Reclassification of preferred shares in liabilities	C	(230,000)	(230,000)	(230,000)
Equity attributable to BDC's shareholder under IFRS		**3,613,202**	**3,392,789**	**3,194,593**
Non-controlling interests				
Joint ventures	B	139,221	160,911	170,548
Investments controlled by BDC	B	7,424	7,401	5,994
Equity attributable to non-controlling interests under IFRS		**146,645**	**168,312**	**176,542**
Consolidated equity under IFRS		**3,759,847**	**3,561,101**	**3,371,135**

Reconciliation of Consolidated Net Income

	Notes	For the year ended March 31, 2011	Three months ended September 30, 2010	Six months ended September 30, 2010
Consolidated net income under Canadian GAAP		346,713	97,736	158,719
Differences increasing (decreasing) net income:				
Post-employment benefits	A	18,848	4,558	**9,115**
Dividends on preferred shares included in net income	C	(5,013)	(1,264)	(2,514)
Other		(257)	**(51)**	**(103)**
		13,578	**3,243**	**6,498**
Net income attributable to BDC's shareholder under IFRS		**360,291**	**100,979**	**165,217**
Impact of consolidation of:				
Joint ventures	B	8,752	2,484	6,636
Investments controlled by BDC	B	(2,523)	(565)	(793)
Net income attributable to non-controlling interests under IFRS		**6,229**	**1,919**	**5,843**
Consolidated net income under IFRS		**366,520**	**102,898**	**171,060**

Reconciliation of Consolidated Comprehensive Income

	Notes	For the year ended March 31, 2011	Three months ended September 30, 2010	Six months ended September 30, 2010
Consolidated comprehensive income under Canadian GAAP		370,317	115,646	211,024
Differences increasing (decreasing) comprehensive income:				
Increase in net income attributable to the shareholder		13,578	3,243	6,498
Actuarial gains (losses) on post-employment benefits	A	34,713	10,574	(19,326)
		48,291	**13,817**	**(12,828)**
Comprehensive income attributable to BDC's shareholder under IFRS		**418,608**	**129,463**	**198,196**
Increase in net income attributable to non-controlling interests		6,229	1,919	5,843
Comprehensive income attributable to non-controlling interests under IFRS		**6,229**	**1,919**	**5,843**
Consolidated comprehensive income under IFRS		**424,837**	**131,382**	**204,039**

Notes to the reconciliations

These notes explain the significant differences shown in the reconciliations between Canadian GAAP and IFRS.

A – POST-EMPLOYMENT BENEFITS

(i) Actuarial gains and losses

Canadian GAAP: Actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, BDC determined whether the cumulative actuarial gain or loss was more than 10% of the greater of the fair value of the pension plan assets or the defined benefit obligation. Any amount that exceeded this 10% corridor was amortized through the income statement over the average remaining service period of active employees. Amounts that fell within the 10% corridor were not amortized.

IFRS: Under IFRS, three options are available to account for actuarial gains and losses: (i) the "corridor" approach; (ii) immediate recognition in net income; or (iii) immediate recognition in other comprehensive income (OCI). Of these three options, BDC has elected to recognize all actuarial gains and losses immediately in OCI. These gains and losses are transferred immediately to retained earnings at the end of each period.

Impact on financial statements: Upon transition to IFRS, existing unamortized net actuarial losses were recognized in opening retained earnings. As a result, the post-employment benefit asset of $145.4 million that existed under Canadian GAAP as at March 31, 2010, was derecognized and an additional post-employment benefit liability of $82.5 million was recognized. Consequently, opening retained earnings decreased by $227.9 million. Subsequent to transition, the amortization component of net actuarial losses is no longer included in post-employment benefits expense, and actuarial gains and losses are immediately recognized in OCI.

(ii) Attribution period

Canadian GAAP: The attribution period for recognizing the liability relating to post-employment benefits began at the date of hire of the employee, as this date normally represents the date at which the service provided by employees starts to give rise to benefits.

IFRS: Under IFRS, the benefits are attributed to periods of service under the plan's benefit formula. For long-term benefit plans that contain both an age-based vesting requirement and a vesting requirement of consecutive years of service immediately before retirement, the attribution period begins only when the employee commences working in periods that can be counted as consecutive years of service before retirement. As BDC's other post-employment benefit plans contain both requirements, the attribution period was revised at transition to IFRS.

Impact on financial statements: Upon transition, the adjustment resulting from the change in the attribution period resulted in a decrease in the post-employment benefit liability of $11.7 million and an equivalent increase in opening retained earnings. Subsequent to transition, the impact of the change in attribution period is not significant.

(iii) Measurement date

Canadian GAAP: The measurement date of the defined benefit obligation and plan assets could have been up to three months prior to the date of the financial statements, provided that the entity applied this practice consistently from year to year. BDC measured the defined benefit obligation and plan assets related to pension plans as of December 31, thus utilizing the three-month gap permitted in the standards.

IFRS: IFRS requires that the defined benefit obligation, as well as the fair value of plan assets, be determined as of the date of the financial statements. IFRS requires that the results of any valuation carried out prior to that date be updated for any material transactions and other material changes in circumstances.

Impact on financial statements: Upon transition, BDC re-measured its defined benefit obligation and plan assets related to pension plans as at April 1, 2010. The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

(iv) Past service costs

Canadian GAAP: Immediate recognition for vested benefits was not permitted and past service costs were amortized by assigning an equal amount to each remaining service period.

IFRS: Under IFRS, immediate recognition for vested benefits is required, and unvested past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

Impact on financial statements: The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

The impact of these changes is summarized as follows:

	As at April 1, 2010
Differences increasing (decreasing) retained earnings	
Actuarial gains and losses	(227,878)
Attribution period	11,690
Measurement date	(3,146)
Past service costs	104
	(219,230)

B – CONSOLIDATION

(i) Joint ventures

Canadian GAAP: BDC holds a portion of its subordinate financing portfolio through investment funds held jointly with the Caisse de dépôt et placement du Québec (AlterInvest Fund L.P., AlterInvest II Fund L.P. and AlterInvest Investment Fund Inc.). Under Canadian GAAP, these funds were proportionately consolidated into BDC's Consolidated Financial Statements by virtue of the fact that they are joint ventures.

IFRS: Based on the definition of control under IFRS, BDC has concluded that it has the power to govern the financial and operating policies of these funds so as to obtain benefits from their activities, and consequently must consolidate them into BDC's Consolidated Financial Statements upon conversion to IFRS. Because BDC is assessed as having control, these funds can no longer be accounted for as joint ventures.

Impact on financial statements: Upon transition, the full consolidation of these investment funds increased assets and liabilities by $173.8 million and $3.3 million, respectively. Non-controlling interests of $170.5 million are now presented within equity and there is no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100% of the subsidiaries' net incomes, including the portion attributable to non-controlling interests.

(ii) Venture capital and subordinate financing investments

Canadian GAAP: Venture capital and subordinate financing investments were measured and presented at fair value in accordance with Accounting Guideline 18 (AcG-18), *Investment companies*. Consequently, they were not consolidated into BDC's Consolidated Financial Statements.

IFRS: Under IFRS, BDC must consolidate investments over which it exercises control. After analysis of venture capital and subordinate financing investments, it has been determined that three investments must be consolidated.

Impact on financial statements: Upon transition, consolidation of these investments resulted in an increase in assets of $6.1 million and an increase in liabilities of $0.1 million. Non-controlling interests, presented within equity, increased by $6.0 million. There was no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100% of the net income of these entities, including the net income attributable to non-controlling interests.

C – RECLASSIFICATION OF PREFERRED SHARES

Canadian GAAP: As per Canadian GAAP, BDC's preferred shares were classified as equity instruments.

IFRS: Under IFRS, if an entity is required to make a non-discretionary annual dividend payment on its preferred shares, these preferred shares need to be classified as a combined instrument, with a liability and an equity component. The equity component represents the residual amount, if any, after deducting the fair value assigned to the liability component. Because BDC's preferred shares are characterized by such an obligation to pay annual dividends, they were reclassified from equity to liabilities upon conversion to IFRS and no residual value was assigned to an equity component. In addition, since the preferred shares are classified as a liability, the dividends are to be recognized in net income as interest expense.

Impact on financial statements: Upon transition, preferred shares of $230 million were reclassified from equity to liabilities. Subsequent to transition, dividends on preferred shares are recognized in net income as interest expense.

D – FINANCIAL INSTRUMENT CLASSIFICATION

(i) Venture capital and subordinate financing investments

Canadian GAAP: With the application of AcG-18, venture capital and subordinate financing investments were out of scope of the financial instrument classification requirements of section 3855, *Financial Instruments-Recognition and measurement*.

IFRS: Investments held by investment companies become subject to financial instrument classification. BDC has designated both venture capital and subordinate financing investments to be carried at fair value through profit or loss.

Impact on financial statements: venture capital and subordinate financing investments are carried at fair value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS did not have an impact on the consolidated financial results.

(ii) Preferred shares

Canadian GAAP: Preferred shares, presented as equity, were not subject to financial instrument classification.

IFRS: Preferred shares, recognized as a liability, are subject to financial instrument classification. BDC has classified its preferred shares as other financial liabilities. Consequently, preferred shares are required to be measured at amortized cost.

Impact on financial statements: Preferred shares are carried at the same value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS did not have an impact on the consolidated financial results.

Reconciliation of opening Consolidated Statement of Financial Position

The following reconciliation illustrates the reclassifications and restatements from Canadian GAAP to IFRS to the opening Statement of Financial Position as at April 1, 2010.

($ in thousands)	GAAP March 31, 2010	Reclassification for presentation purposes	IFRS adjustments other than consolidation	IFRS adjustments related to consolidation	IFRS April 1, 2010
ASSETS					
Cash and cash equivalents	1,013,757	-	-	8,814	1,022,571
Derivative assets	85,779	-	-	7	85,786
Loans and investments					
Asset-backed securities	3,274,974	2,317	-	-	3,277,291
Loans	12,525,521	-	-	-	12,525,521
Subordinate financing investments	193,203	-	-	164,529	357,732
Venture capital investments	362,270	-	-	5,647	367,917
	16,355,968	2,317	-	170,176	16,528,461
Property and equipment	16,944	-	-	-	16,944
Intangible assets	19,406	-	-	-	19,406
Post-employment benefit asset	145,434	-	(145,434)	-	-
Other assets	42,639	(2,317)	-	955	41,277
Total assets	17,679,927	-	(145,434)	179,952	17,714,445
LIABILITIES AND EQUITY					
Liabilities					
Accounts payable and accrued liabilities	71,640	-	(807)	3,271	74,104
Derivative liabilities	73,233	-	-	-	73,233
Accrued interest on borrowings	11,893	(11,893)	-	-	-
Borrowings				-	
Short-term notes	5,557,862	1,128	-	-	5,558,990
Long-term notes	8,166,357	10,765	-	-	8,177,122
	13,724,219	11,893	-	-	13,736,112
Preferred shares	-	-	230,000	-	230,000
Post-employment benefit obligation	113,059	-	73,796	-	186,855
Other liabilities	42,867	-	-	139	43,006
Total liabilities	14,036,911	-	302,989	3,410	14,343,310
Equity					
Share capital	2,744,400	-	(230,000)	-	2,514,400
Contributed surplus	27,778	-	-	-	27,778
Retained earnings	869,849		(218,423)	-	651,426
Accumulated other comprehensive income	989		-	-	989
Equity attributable to BDC's shareholder	3,643,016	-	(448,423)	-	3,194,593
Non-controlling interests	-	-	-	176,542	176,542
Total equity	3,643,016	-	(448,423)	176,542	3,371,135
Total liabilities and equity	17,679,927	-	(145,434)	179,952	17,714,445

Material adjustments to the Consolidated Statement of Cash Flows

Following the transition to IFRS, disbursements and repayments of loans have been classified as operating activities. Under previous Canadian GAAP, cash flows relating to loans were classified as cash flows from investing activities.

Furthermore, interest paid and interest received are now presented as separate line items in the Consolidated Statement of Cash Flows under operating activities.

The consolidation of BDC's subsidiaries has also affected the cash flows provided by operating, investing and financing activities. The impact is not significant for any category of cash flow.

There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows previously presented under Canadian GAAP.

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, $1.7 billion of asset-backed securities was redeemed by an issuer prior to maturity. Consequently, BDC has repaid $1.6 billion of borrowings related to these securities.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the second quarter of fiscal 2012.

TERMINOLOGY CORRESPONDENCE TABLE

Terminology used in fiscal 2011	Terminology used in fiscal 2012
Accrued benefit asset	Post-employment benefit asset
Accrued benefit liability	Post-employment benefit liability
Consolidated Balance Sheet	Consolidated Statement of Financial Position
General allowance	Collective allowance
Provision for credit losses	Impairment losses on loans
Specific allowance	Individual allowance

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